BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Nebraska Public Service Commission, on its own motion, seeking to investigate the use of expense caps in the earnings calculation for Nebraska universal service fund support.	**Application No. NUSF-64**

QWEST CORPORATION'S SECOND SET OF COMMENTS

Qwest Corporation ("Qwest") submits its second set of comments in this docket, as follows.

Introduction

In this docket, the Commission seeks to establish a method to determine proper expense levels for Nebraska eligible telecommunications carriers ("NETCs"). As a preliminary step in this analysis, Staff proposes a complex regression equation to determine whether companies should face additional inquiry. The proposal under consideration appears to recognize that no single formula can determine or reveal whether expenses are improperly high, and thus the Commission stated in its October 10 order in this docket that the regression analysis will be used only to determine which companies "would face no further scrutiny from the Commission" beyond annual audit requirements already in place.

It is certainly true that a mathematical equation cannot provide a proper substitute for case-by-case examination of NETCs' expenses. It is also true that the Commission has limited resources, and cannot conduct in-depth examinations (beyond existing audit requirements) of every NETC. Qwest is concerned, however, that the proposed calculation is unnecessarily complex, and may be misleading in certain instances as to whether expenses are "high" or "low." To that end, Qwest offers the following comments to the Commission's questions posed in the October 10, October 16, and November 2 orders.

1. **Whether the Commission should use the same number of data points (or years) for each company. For example, the Commission did not have specific information from cooperatives because they are not required to file Form M data. Should the Commission send out a data request to acquire this information and include it in the model?**

Qwest assumes that the PSC's fundamental objective in this docket is to determine a mechanism to indicate appropriate operating expense levels for companies that provide NUSF supported services and draw support. The primary purpose of USF support is to offset a portion of the cost of providing basic local service in rural and high cost areas and to help maintain comparable basic local service rates for rural and urban consumers. Any calculation method needs to carefully model inputs and drivers, so the output provides the proper balance of economic incentives that maintains quality services in rural areas through the provision of sufficient funding while not overburdening consumers with excessive surcharges upon consumers telecommunications services which are the source of the funds.

Regression analysis should use gross investment as an input:

Though any model based upon a regression analysis is not perfect, if a regression analysis is used as a preliminary screening tool, the inputs need to relate to drivers that indicate the high cost of service. For example, when rural cable is provided it must also be maintained; therefore, increased plant investment usually indicates more maintenance cost. As a result, the use of "net" investment or "net" plant probably does not correlate as well as "gross" investment or plant. As an accounting measure, "net investment" recognizes that gross investment is depreciated and has less value, but in the practical world, the total, or gross amount of plant or investment determines the amount of maintenance cost – not the "net" book value. In fact, older and more depreciated plant may require more maintenance at higher costs than newer investment. Accordingly, Qwest proposes the Commission use gross investment as the driver rather than net investment as the input to their regression analysis.

Additionally, Accounts 6540 – Access Expense, 6621 – Call Completion Expense, and 6622 – Number Services Expense do not seem to be related in a logical way to the independent variables in the equation. It is far from clear that these expenses vary because of the square miles a company serves, or its investment.

<u>Expenses and investment for nonregulated services should be excluded:</u>

Many providers, including Qwest, have significant and growing levels of nonregulated services. For Qwest, the accounting for nonregulated expense and investment follows the FCC accounting safeguards in 47 CFR Parts 32 and 64 and can be easily identified for the Commission. Qwest proposes that expenses and investment from nonregulated services should not be included in the regression determined cap nor the cost.

<u>Accounting cost inputs should be consistent across all providers.</u>

Expense amount for larger companies such as Qwest are expected to have a high impact on the output from the regression analysis. However, Qwest suspects it has some unique situations as it accounts for its operations. One example is probably how Qwest accounts for Federal USF contributions to the FCC for interstate retail services in Account 6540. This cost is not associated with NUSF supported services and is inconsistent with the types of cost and the cost levels of most other carriers. Qwest proposes that the amount of Federal USF contribution remittances to the FCC should be adjusted from Account 6540 amounts.

Additionally, Qwest does not file a Form M with the FCC or the Nebraska PSC. Instead Qwest files its cost and revenue detail in the FCC's Automated Reporting Management Information System (ARMIS), see http://www.fcc.gov/wcb/eafs/, and relies on the significant reports and schedules in ARMIS for the bulk of its Nebraska annual report to the PSC. Qwest proposes that companies that do not provide the Form M should provide the summary account detail required by the Commission to complete the regression analysis. The ARMIS Form 43-03 should contain the account detail described by the Commission and clearly identifies regulated and nonregulated amounts. The ARMIS Form 43-01 contains the account detail needed to eliminate the interstate portion of Account 6540 – Access Expense.

2. Should the Commission update the underlying information periodically? If so, how should the information be updated?

The regression analysis should be updated annually. Annual reporting is the most universal accounting convention used for most financial and regulatory reporting purpose, and it appears that the accounting detail that will be required by the Commission is readily available. Therefore Qwest proposes that the data be updated annually for most companies for reporting periods.

3. **Qwest questioned whether the Commission included the access lines sold to competitors leasing unbundled network elements. The Commission did not include those access lines in the data set. Should these lines be included given the goal of this proceeding is to include expenses appropriately associated with universal service.**

Access lines sold or leased to competitors, including those that are unbundled network elements, should be included. Qwest operates and maintains plant and investment that is resold or leased to CLECs that in turn provide NUSF-supported services to high cost consumers. The cost to maintain and operate the entire plant should be included along with the appropriate count of the wholesale or resold access lines. Eliminating resold or leased access lines, while including the cost, will distort the outputs of the regression analysis. Qwest proposes that the resold or leased access lines should be included in regression analysis inputs.

Dated Wednesday, November 14, 2007.

Respectfully submitted,

QWEST CORPORATION

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Certificate of Service

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